

What's New for Nonresidents and Part-Year Residents

STANDARD DEDUCTION—For 2002, the standard deduction is increased to \$1,800.

RETIREMENT INCOME—For 2002, the retirement income exclusion is increased to \$38,775.

INTERNAL REVENUE CODE—Kentucky's income tax law is based on the Internal Revenue Code (IRC) in effect December 31, 2001. The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 have been adopted. The provisions of the Victims of Terrorism Tax Relief Act of 2001 and the Job Creation and Worker Assistance Act of 2002 (JCWAA) have not been adopted.

FEDERAL/STATE DIFFERENCES—The following provisions of Job Creation and Worker Assistance Act of 2002 (JCWAA) are not effective for Kentucky:

NOL Carrybacks—The two-year NOL carryback rules provided in IRC Section 172 in effect on December 31, 2001, apply for Kentucky income tax purposes instead of the special five-year carryback rule provided in the JCWAA.

30 Percent Special Depreciation and New York Liberty Zone Section 179 Expense Deduction—Effective for taxable years ending after September 10, 2001, an individual that for federal income tax purposes elects to utilize the 30 percent special depreciation allowance or the additional New York Liberty Zone Section 179 deduction will have a different depreciation deduction for Kentucky purposes. The differences will continue through the life of the assets. There will be recapture and basis differences between Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

Educator Expenses (Deduction for Teacher Supplies)—The deduction of up to \$250 for teachers and other educators for their out-of-pocket expenses in providing classroom supplies allowed for federal purposes is not deductible for Kentucky tax purposes.

QUALIFIED RESEARCH FACILITY TAX CREDIT—A new credit equal to 5 percent of the cost of construction of research facilities in Kentucky for qualified research as defined in Section 41 of the IRC. Any unused credit may be carried forward 10 years. "Construction of research facilities" means constructing, remodeling, and equipping facilities in this state or expanding existing facilities in this state for qualified research and includes only tangible, depreciable property, and does not include any amounts paid or incurred for replacement property. Attach Schedule QRFTC, Qualified Research Facility Tax Credit.

KENTUCKY INVESTMENT FUND ACT (KIFA) REVISIONS—New rules are in effect for investment funds approved after July 1, 2002. The credit is available only after the Kentucky Economic Development Finance Authority has approved an investment in a qualified business and certified the amount of credit to the Revenue Cabinet. The credit may be claimed on the tax return filed for the tax year following the year in which the credit is granted.

NATIONAL GUARD AND RESERVE MEMBERS on active duty, and who serve in an area designated as a combat zone by presidential proclamation, are entitled to an extension to file and pay Kentucky income taxes that become due during the period of service. The extension is for 12 months after the expiration of the service in the combat zone.

NONRESIDENT PARTNERS OF QUALIFIED INVESTMENT PARTNERSHIPS—KRS 141.206 was amended to exempt nonresident individuals from taxation on distributive share income from a qualified investment partnership. "Qualified investment partnership" is defined to mean a partnership formed to hold only investments that produce income that would not be taxable to the nonresident individual if held or owned individually.

